

LIC Housing Finance



Scrip Code: **500253** ; Holding: **1-3 Month Plus**
 Buy Price Rec: **636**
 Price target: **700/750/???**+ (Subscribe Research)

Rec Date: 25/06/2009

Company background

LIC Housing Finance Ltd. is one of the largest Housing Finance company in India. Incorporated on 19th June 1989 under the Companies Act, 1956, the company was promoted by LIC of India and went public in the year 1994. The Company launched its maiden GDR issue in 2004. The Authorized Capital of the Company is Rs.1500 Million (Rs.150 Crores) and its paid up Capital is Rs.850 Millions (Rs.85 Crores). The Company is recognized by National Housing Bank and listed on the National Stock Exchange (NSE) & Bombay Stock Exchange Limited (BSE) and its shares are traded only in Demat format. The GDR's are listed on the Luxembourg Stock Exchange

Vision: - To be the best Housing Finance Company in the country.

Mission: -Provide secured housing finance at affordable cost, maximizing shareholders value with higher customer sensitivity.

Values: - Fair and Transparent Business Practices. Transformation to a Knowledge Organisation.Higher Autonomy in Operations. Instilling a sense of Ownership amongst Employees

Report card

PE ratio	10.15	26/06/09
EPS (Rs)	62.59	Mar, 09
Sales (Rs crore)	790.48	Mar, 09
Face Value (Rs)	10	
Net profit margin (%)	17.82	Mar, 08
Last dividend (%)	130	23/04/09
Return on average equity	21.13	Mar, 08

Company details

Market cap: Rs7,679 cr

52-week high/low: 649.80 - 151.00

Industry:- Finance - Housing

BSE code: 500253

NSE code: LICHSGFINEQ

Shareholding pattern

Share Holding Pattern as on :	31/03/2009		30/09/2008		30/06/2008	
	No. Of Shares	% Holding	No. Of Shares	% Holding	No. Of Shares	% Holding
Face Value	10.00		10.00		10.00	
PROMOTER'S HOLDING						
Indian Promoters	34688499	40.84	34688499	40.84	34688499	40.84
Sub Total	34688499	40.84	34688499	40.84	34688499	40.84
NON PROMOTER'S HOLDING						
Institutional Investors						
Mutual Funds and UTI	10912461	12.85	1537482	1.81	2100813	2.47
Banks Fin. Inst. and Insurance	5091225	5.99	5182385	6.10	5363030	6.31
FII's	18343152	21.60	27933886	32.89	26687847	31.42
Sub Total	34346838	40.44	34653753	40.80	34151690	40.21

Other Investors

Private Corporate Bodies	5207518	6.13	4712142	5.55	4349642	5.12
NRI's/OCB's/Foreign Others	248914	0.29	257863	0.30	263346	0.31
Government	3480	0.00	7764	0.01	1950	0.00
Others	184902	0.22	309718	0.36	483509	0.57
Sub Total	5644814	6.65	5287487	6.23	5098447	6.00
General Public	10252449	12.07	10302861	12.13	10993964	12.94
GRAND TOTAL	84932600	100	84932600	100	84932600	100

Key points

LIC Housing Finance Ltd. is setting up a 5 billion rupees (about \$100 million) venture fund to invest in the Indian real estate industry as the mortgage lender sees demand reviving in the sector, its chief executive said.

"We will finalize partners for the fund within a month and launch it by September," R. R. Nair, also a board member, told Dow Jones Newswires in a recent interview.

The fund will be raised locally, he said, but added it hasn't yet been decided if the fund would be invested in residential or commercial projects.

"After this, we could also raise an offshore fund of \$500 million," Mr. Nair said, without giving details.

LIC Housing is founded by Life Insurance Corp. of India - the country's largest life insurer by market share - which holds a 40.8% stake in it.

"For this (financial) year, the outlook is enthusiastic. Housing projects have restarted and we see a good demand. We expect revenue growth to be about 40% (from a year earlier)," Mr. Nair said.

The company recorded total income of 28.8 billion rupees for the financial year ended March 31, up 34% from a year earlier.

Housing demand, which fell last year, is recovering after property developers reduced prices and launched cheaper projects, while banks cut interest rates on loans.

Mr. Nair said he expects the company to have a net interest margin of 2.7%-3.0% in the financial year that began April 1, compared with 2.9% in the just-ended financial year.

The company set up LIC Housing Finance Financial Services, a fully owned unit, in March to earn from fee-based services. LIC Housing has no fee income currently as until now it operated only in the housing finance business.

The unit will sell all products like mutual funds and credit cards, Mr. Nair said. He added the unit will have 36 offices by September and nearly 300 outlets in the next 3-4 years compared with five now.

The unit has a very lean model and doesn't require much investment, he said. "We expect (the unit) to break even by the end of this fiscal year."

Mr. Nair said the company will decide on the pricing of its share sale at its annual general meeting July 21.

LIC Housing had said June 1 it will sell 10 million shares to institutional investors later this financial year.

He said also the company is keen to maintain its stake in LIC Mutual Fund at 20%.

The company earlier this month entered into an agreement with Japanese financial services group Nomura to sell a 19.3% stake in LIC Mutual Fund for 1.38 billion rupees. LIC Housing has a total of 39.3% stake in LIC Mutual Fund.

Nomura is buying a total of 35% stake in LIC Mutual Fund from LIC Housing, Life Insurance Corp. and LIC Housing Finance Ltd., which will sell its entire 11.2% stake.

"The joining of Nomura will bring rich asset management capabilities to the mutual fund company," Mr. Nair said.

Company Profile

LIC Housing Finance Ltd. is one of the largest Housing Finance companies in India. The main objective of the Company is providing long term finance to individuals for purchase, construction, repair and renovation of new and existing houses. The Company also provides finance on existing property for both business and personal needs and gives loans to professionals for purchase, construction of Clinics, Nursing Homes, Diagnostic Centres, Office Space etc. The mission of the company is to provide secured housing finance at affordable cost, maximizing shareholders value with higher customer sensitivity.

The asset quality has shown improvement over the period with GNPA of **1.69%** and NNPA of **0.73%** as on Dec 2008. LICHF's funds are sourced from term loans from banks, bonds and debentures constituting 80% of borrowing and term loans from the promoter of the Company, LIC of India, contributing 8% of the total borrowing and the remaining 12% in form of refinance from NHB and others. **The weighted average cost of total funds as on Dec 08 is 9.65%**. On the asset front, **93%** of outstanding loan is in the individual segment, yielding **11.5%** and the balance is towards builder loans, yielding **15% - 16%**. LICHF's average loan size has increased to around Rs 12 lakh as compared to around Rs 10.6 lakh last year. It is fourth in terms of market share (including banks), with 6-7% market share in home loan disbursements in FY08. It has 130 marketing offices across 450 locations in the country. The company has a large mobilisation network of over 6800 home loan agents, 1292 direct sales agents and 535 customer relation associates. **The company has loan outstanding of Rs 229.40 bn as at December 31, 2008.**

Valuation & Recommendation

The company has been registering excellent numbers for the past few years. Over the last three years, Income from operations has grown at CAGR of **31%** helped by robust loan growth of **21%**, asset quality too has improved along with tight control on costs. GNPA & NPA has declined from **3.40%** and **1.80%** in financial year 2005 to **1.70%** and **0.64%** in financial year 2008 respectively.

We expect the loan portfolio of LICHFL to grow at a CAGR of 21% over FY08- FY10E. Net Interest Margins are expected to stabilize at current levels as 93% of the loan portfolio is offered at floating rates. Given the healthy outlook on growth, spreads, asset quality and LICHFL's strong brand recall, **we expect the company to register a compounded annual growth of 22%, 21% and 22% in Operating Income, Net Interest Income and Net Profit respectively over FY08- FY10E.**

At the current price, the stock is trading at **0.69 x** its FY09E ABV and **0.55 x** its FY10E ABV of Rs 275 and Rs 342, respectively. **Moreover the company has been consistently increasing the rate of dividend since the last four financial years from 50% in the financial year ended 2005 to 100% (Rs 10 per share) in the financial year ended 2008. Even if we assume that status quo is maintained, yield works to be more than 5%.**

We have valued the company using sum-of-the-parts (SOTP) method to arrive at a target price of Rs 303, implying a potential upside of 61% upside from current levels.

We have valued the core business of LIC Housing Finance using the average of P/BV method and Relative Valuation method, to arrive at a **value per share of Rs 280. On P/BV basis**, valuations look very lucrative at **0.69 x** FY09E P/BV and **0.55 x** FY10E P/BV.

We believe the stock should trade fairly at **0.85 x** its FY10E P/BV of Rs 342, considering the robust outlook of the company, which gives us a **value per share of Rs 291. On relative valuation basis, LIC Housing Finance** trades a P/E of **3.3x** on TTM EPS of Rs 57.91, whereas its peer companies like **HDFC, Dewan Housing, GIC Housing and Gruh Finance** trades at a P/E of **16.4x, 3.0x, 3.1x and 5.9x** on TTM EPS respectively. Hence, the current valuation of the stock makes it more favourable compared to its peers. We assign a P/E multiple of **4x** its FY10E EPS of Rs 67.37 to arrive at **price of Rs 269.**

LICHFL holds a significant stake to the extent of **39.3%** in LIC Mutual Funds (LICMF). The assets under management of LICMF as of February 2009 stood at Rs 24270 crore. Taking a valuation of **2%** of the AUM, investment in LICMF **translates into Rs 23 per share of LICHFL.**

Industry Outlook

- India continues to be amongst the fastest growing nations in the world, backed by among other things, increased job opportunities, higher disposable incomes, a growing middleincome group and tax saving opportunities, which continue to be available on interest and principal re-payments on housing loans. The growing affluence of the middle class has acted as a great impetus for big housing projects taking off in tier I and tier II cities.
- The Indian housing finance sector has been insulated from the subprime crisis in the US owing to various factors like availability of plain vanilla financial products in the market, limited exposure of Indian financial system to highly leveraged structured products, timely measures by the authorities to control asset bubbles etc. Further, the Indian housing market is facing an acute demand-supply mismatch with the housing shortage expected to rise to 26.53 million units by 2012 from the current shortage of 24.7 million units. It is also estimated that most of this shortage pertains to the economically weaker sections and low-income groups.
- Home loans to Gross Domestic product (GDP) Ratio in India is 7.25% as against 50% in developed countries like United States and United Kingdom, according to Assocham. This indicates a huge growth potential for the housing sector and in turn presents a fantastic growth opportunity for the housing finance industry.
- The threat for stand-alone housing finance companies comes from commercial banks, which have an established vast network and access to funds at a comparatively cheaper cost, continuing to be active players in this segment. However, there is ample scope for expansion, based on novel marketing initiatives, professional expertise and customer friendly approach.

Risk & Concerns

Challenging real estate market: The real estate market in India is becoming a lot challenging. This could lead to marked slowdown in business and higher delinquencies.

Stiff competition: The Company could see loss of market share to commercial banks and pressure on spread due to interest rate cuts announced by PSU banks on home loans.

High exposure to project developers: The Company has made a deliberate strategy to increase exposure to project developers, which could also increase its NPA levels.

Increase in the average loan size: An increase in the average loan size might result in nonrepayment, increasing NPAs and hurting profitability.

Financials

	Mar ' 08	Mar ' 07	Mar ' 06	Mar ' 05	Mar ' 04
SOURCES OF FUNDS					
Owner's Fund					
Equity Share Capital	85.00	85.00	85.00	85.00	75.00
Share Application Money	0.00	0.00	0.00	0.00	0.00
Preference Share Capital	0.00	0.00	0.00	0.00	0.00
Reserves & Surplus	1,746.66	1,458.84	1,260.51	1,110.05	886.33
Loan Funds					
Secured Loans	19,113.40	14,676.95	12,361.36	10,304.94	8,434.49
Unsecured Loans	1,231.03	1,655.64	1,419.05	742.90	743.26
Total	22,176.09	17,876.43	15,125.92	12,242.89	10,139.08
USES OF FUNDS					
Fixed Assets					
Gross Block	46.41	43.26	41.14	37.32	33.12
Less : Revaluation Reserve	0.00	0.00	0.00	0.00	0.00
Less : Accumulated Depreciation	23.42	20.16	16.90	12.58	9.43
Net Block	22.99	23.11	24.24	24.75	23.69
Capital Work-in-progress	7.02	0.50	0.22	0.53	0.68
Investments	774.56	206.12	314.14	76.13	134.41
Net Current Assets					
Current Assets, Loans & Advances	22,552.39	18,556.29	15,381.84	12,649.43	10,361.92
Less : Current Liabilities & Provisions	1,180.88	909.58	594.53	507.95	381.62
Total Net Current Assets	21,371.51	17,646.71	14,787.31	12,141.48	9,980.30
Miscellaneous expenses not written	0.00	0.00	0.00	0.00	0.00
Total	22,176.08	17,876.44	15,125.91	12,242.89	10,139.08
Note :					
Book Value of Unquoted Investments	798.76	241.11	351.20	23.63	65.09
Market Value of Quoted Investments	0.59	0.28	0.25	1.51	2.21
Contingent liabilities	2.66	0.23	0.54	0.37	0.65
Number of Equity shares outstanding (in Lacs)	849.33	849.33	849.33	849.33	749.33

The author doesn't hold any investment in any of the companies mentioned in the article.

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